

No. 13/ 13 /DPM

Jakarta, May 9, 2011

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS AND INTERMEDIARIES

Subject: Amendment to Bank Indonesia Circular Letter
Number 12/18/DPM dated July 7, 2010 concerning
Open Market Operation

In relation to the efforts for strengthening monetary operations aiming at the management of liquidity excess for supporting the extension of domestic money market and minimizing the negative impacts of short-term foreign capital flow on the monetary and financial system stability, it is necessary to improve the provisions on Open Market Operation as follows:

1. The provisions of Chapter I shall be amended so as to read as follows:

I. GENERAL PROVISIONS

- A. Terminologies used in this Bank Indonesia Circular Letter are defined as follows:

1. Monetary Operation shall be the implementation of monetary policies by Bank Indonesia in the context of monetary management through Open Market Operation

and Standing Facilities.

2. Open Market Operation, hereinafter briefly referred to as OMO, shall be transactions in money market conducted by Bank Indonesia and OMO Participants in the context of a Monetary Operation.
3. OMO Participants shall be Banks meeting the requirements to become Monetary Operation participants as provided for in Bank Indonesia provisions concerning the criteria and requirements for Securities, Participants and Intermediaries in Monetary Operations.
4. Bank shall be a Commercial Bank as referred to in the applicable Law concerning Banking, which conducts conventional business activities.
5. Intermediaries shall be rupiah and foreign exchange money market brokers and capital market brokers appointed by the Minister of Finance of the Republic of Indonesia as main dealers as provided for in Bank Indonesia provisions concerning the criteria and requirements for Securities, Participants, and Intermediaries in Monetary Operations.

6. Securities shall be Bank Indonesia Certificates and Sovereign Securities used in OMO transactions as referred to in Bank Indonesia provisions concerning the criteria and requirements for Securities, Participants, and Intermediaries in Monetary Operations.
7. Bank Indonesia Certificate, hereinafter referred to as SBI, shall be securities in rupiah currency issued by Bank Indonesia as an acknowledgement of short-term indebtedness.
8. Sovereign Securities, hereinafter briefly referred to as SBN, shall be Sovereign Debt Securities and Sovereign Sharia Securities.
9. Sovereign Debt Securities, hereinafter briefly referred to as SUN, shall be securities in the form of acknowledgement of indebtedness in rupiah currency or foreign currency, the payments of the interest and principal of which are guaranteed by the Government of the Republic of Indonesia, in accordance with the validity period thereof, as referred to in the applicable Law.
10. Sovereign Sharia Securities, hereinafter briefly

referred to as SBSN, or may be referred to as Sovereign Sukuk, shall be SBN issued based on the sharia principles, either in rupiah currency and foreign currency, as proof of participation in SBSN assets as referred to in the applicable Law.

11. Government Bond shall be SUN with a tenure of more than 12 (twelve) months with coupons and/or with discount-based interest payment.
12. Government Treasury Bills, hereinafter briefly referred to as SPN, shall be SUN with a tenure of up to 12 (twelve) months, with discount-based interest payment.
13. Zero Coupon Bond, hereinafter referred to as ZCB, shall be Government Bond without any coupon and with discount-based interest payment.
14. Retail Government Bond, hereinafter briefly referred to as ORI, shall be Government Bond which is sold to individuals or natural person of Indonesian Citizen in the primary market.
15. Repurchase Agreement Transaction, hereinafter referred to as repo transaction,

shall be a Securities sale transaction by an OMO Participant to Bank Indonesia, with a repurchase obligation by the OMO Participant according to the agreed price and tenure.

16. Reverse Repo shall be a Securities sale transaction by an OMO Participant from Bank Indonesia, with a resale obligation by the OMO Participant according to the agreed price and tenure.
17. Term Deposit shall be the placement of rupiah funds by OMO Participants for a certain period of time with Bank Indonesia.
18. Outright Transaction shall be transaction on the sale and purchase of Securities by OMO Participants from Bank Indonesia in an outright manner without any sale and repurchase obligations by the OMO Participants.
19. Demand Deposit Account shall be a rupiah demand deposit account of an OMO Participant with Bank Indonesia.
20. Securities Account shall be Securities account of an OMO Participant recorded in an active

trading account in Bank Indonesia - Scripless Securities Settlement System.

21. Sub-Registry shall be Bank and institution conducting custodian activities which meet the requirements and are approved by Bank Indonesia to perform the function of Securities administrator on behalf of customers.
22. Bank Indonesia-Scripless Securities Settlement System, hereinafter referred to as BI-SSSS, shall be a system that provides facilities for transactions with Bank Indonesia, including the administration thereof and electronic administration of securities having direct connection between participants, the operator and the Bank Indonesia-Real Time Gross Settlement system.
23. Bank Indonesia-Real Time Gross Settlement system, hereinafter referred to as BI-RTGS system, shall be an electronic fund transfer system among the participants of BI-RTGS system in rupiah currency, the settlement of which is conducted in a real time manner per individual transaction.
24. Commercial Bank Daily Reporting System,

hereinafter briefly referred to as LHBU system, shall be a facility for Banks' reporting to Bank Indonesia on a daily basis, including the provision of money market information and announcements from Bank Indonesia.

- B. Bank Indonesia in the context of an Open Money Market Operation may conduct Liquidity Absorption and/or Liquidity Injection by using one or more instruments for affecting liquidity in the money market or maintaining the availability of monetary operation instruments required for the achievement of the operational targets of Bank Indonesia monetary policies.

- 2. The provisions of point II.9 shall be amended so as to read as follows:

- 9. The limitation of Transaction on SBI for 6 (Six) Months as from the Holding of the SBI (Minimum Six Month Holding Period)

- a. Provisions

- 1) Within a period of 6 (six) months, namely 182 (one hundred and eighty-two) calendar days as from the purchase settlement date, the SBI holder shall be prohibited from conducting any

transaction with any other party on SBI being held.

- 2) The prohibited SBI transaction as referred to in point 1) shall cover, among other things, repo transaction, outright transaction, grant and pledge transaction.
- 3) With due observance of the provision in point 1), SBI repo sell and buy-back transaction may not be conducted within a period of less than 6 (six) months or 182 (one hundred and eighty-two) calendar days.
- 4) With due observance of the provision in point 1), in the event that there is a second leg of SBI transaction without any transfer of holding, such as, among other things, repo collateralized borrowing, pledge and securities lending and borrowing, the SBI holder may conduct the SBI transaction after the due date of the second leg.
- 5) With due observance of the provision in point 1), in the event that there is a second leg of SBI transaction with a transfer of holding, such as, among other things, SBI repo sell and buy-

back, the SBI holder may conduct such SBI transaction under the following provisions:

- (a) In the event that the second leg repo transaction is successfully conducted, the SBI transaction may be conducted again by the repo seller after 6 (six) months or 182 (one hundred and eighty-two) calendar days as from the settlement of the second leg repo transaction.
 - (b) In the event that the second leg repo transaction fails, the SBI transaction may be conducted again by the repo purchaser after 6 (six) months or 182 (one hundred and eighty-two) calendar days as from the settlement date of the first leg of the SBI transaction.
- 6) In the event of SBI transfer between Sub-Registries without any transfer of holding, or transfer of SBI due to a merger, acquisition and consolidation, the SBI transaction may be conducted again after 6 (six) months or 182 (one hundred and eighty-two) calendar days as from the registration of the SBI with the initial

Sub-Registry or in the initial securities account.

- 7) The provision as set forth in point 1) shall not apply to SBI transactions by OMO Participants with Bank Indonesia.
- 8) Sub-Registry must administer SBI held by its customers by complying with the provisions as referred to in points 1) up to 7).

b. Transitional Provisions

- 1) SBI transactions conducted following the coming into effect of this Circular Letter shall constitute a part of the transaction which has been conducted prior to the coming into effect of this Circular Letter, and shall be excluded from the provision as set forth in letter (a) until the due date of the transaction, provided that at any time it must comply with the provision of point II.9.a.1) of Bank Indonesia Circular Letter Number 12/18/DPM dated July 7, 2010 concerning Open Market Operation.
- 2) In the event of a transaction with second leg and without any transfer of holding, such as, among other things, repo collateralized

borrowing, pledge and securities lending and borrowing prior to the coming into effect of this Circular Letter, the SBI holder may conduct SBI transaction again after 6 (six) months or 182 (one hundred and eighty-two) calendar days as from the holding of the SBI.

c. Supervision

- 1) Bank Indonesia shall conduct direct monitoring and/or supervision of the implementation of the provision as referred to in letter (a) by OMO Participants and Sub-Registry.
- 2) In the event that there is any indication of violation of the provisions in letter (a), Bank Indonesia shall send a confirmation request to the relevant OMO Participants and/or Sub-Registry.
- 3) The OMO Participants and/or Sub-Registry receiving a confirmation request as referred to in point 2) must give their response in writing to Bank Indonesia by no later than 3 (three) business days after the receipt of the confirmation letter from Bank Indonesia.

- 4) In the event that up to the time limit as referred to in point 3) the OMO Participants and/or the Sub-Registry fail to provide their written response, the OMO Participants and/or Sub-Registry shall be considered to have confirmed such violation indication.
 - 5) With respect to the violation as referred to in letter (a), Bank Indonesia shall impose sanctions as referred to in Bank Indonesia Regulation concerning Monetary Operations.
3. The provisions of point III.8.c shall be amended so as to read as follows:
 - c. Failure of a Second Leg Settlement

In the event that an OMO Participant fails to conduct second leg settlement, the Securities subject to Repo shall be treated as follows:

 - 1) In the event of Securities in the form of SBI, Bank Indonesia shall settle the SBI before its maturity (early redemption) and shall charge Repo fees.
 - 2) In the event of Securities in the form of SBN, the relevant transaction shall be treated as an outright sale transaction by the OMO Participant and Bank Indonesia shall charge Repo fees.

- 3) The calculation of the outright transaction settlement and the use of Securities price in the outright transaction shall be as set forth in Bank Indonesia provisions concerning the criteria and requirements for Securities, Participant, and Intermediary in Monetary Operation.
- 4) In the event of an outright transaction:
 - a) The Demand Deposit Account shall be debited or credited with the calculation of SBN price as follows:
 - (1) in the event that the price in the outright transaction is lower than the price in the first leg transaction after being deducted by a haircut, the Demand Deposit Account shall be debited in the amount of such difference, after being multiplied by the nominal value of the SBN subject to Repo;
 - (2) in the event that the price in the outright transaction is higher than the price in the first leg transaction less a haircut, the Demand Deposit Account shall be credited in the amount of such

difference, after being multiplied by the nominal value of the SBN subject to Repo and in a maximum amount of the value of the haircut determined in the first leg.

b) The Demand Deposit Account shall be credited in the amount of the interest/rights accruing as from the first leg settlement up to the second leg settlement.

c) The Demand Deposit Account shall be debited in the amount of the Repo interest.

5) Following the cancellation of the matured Repo transaction (second leg) as referred to in point b.5), the relevant OMO participant shall be subject to sanctions as provided for in Bank Indonesia Regulations concerning Monetary Operations.

4. The provisions of point IV.8.c. shall be amended so as to read as follows:

c. Failure of a Second Leg Settlement

1) In the event that OMO Participants fail to conduct the second leg settlement, the Reverse Repo transaction shall be treated as an outright sale transaction by the OMO Participants.

- 2) The calculation of the outright transaction settlement and the use of Securities price in the outright transaction shall be as referred to in Bank Indonesia provisions concerning the criteria and requirements for Securities, Participants, and Intermediaries in Monetary Operations.
- 3) In the event of an outright transaction:
 - a) The Demand Deposit Account shall be debited or credited with the calculation of SBN price as follows:
 - (1) In the event that the price in the outright transaction is equal to or higher than the price in the first leg transaction less haircut, the Demand Deposit Account shall be debited in the amount of such difference, after being multiplied by the nominal value of the SBN subject to Reverse Repo and in a minimum amount of the value of the haircut determined in the first leg;
 - (2) In the event that the price in the outright transaction is lower than the price in the first leg transaction less haircut, the Demand Deposit Account shall be

debited in the amount of the haircut on the date of the first leg transaction.

- b) The Demand Deposit Account shall be debited in the amount of interest/rights accruing as from the date of the first leg up to the second leg transactions.
 - 4) Following the failure of the second leg settlement, the relevant OMO Participant shall not receive any Reverse Repo interest.
 - 5) Following the cancellation of the matured Reverse Repo transaction (second leg) as referred to in point b.5), the relevant OMO Participant shall be subject to sanctions as provided for in Bank Indonesia Regulations concerning Monetary Operations.
5. The provisions of point V.I shall be amended so as to read as follows:
- 1. The outright purchase and sale of SBN from Bank Indonesia in the secondary market shall be conducted in the context of Liquidity Absorption and/or Liquidity Injection and in the context of maintaining the availability of SBN required as monetary operation instruments for the achievement of the operational targets of Bank Indonesia monetary policies.

6. The provisions of point VI.9 shall be amended so as to read as follows:

9. Early redemption of term deposit transactions.

a. Requirements

Early Redemption may only be conducted on Term Deposits issued with a minimum tenure of 1(one) month.

b. Submission of request for Early Redemption

- 1) OMO Participants may submit request for early redemption starting from 15.00 up to 17.00 Western Indonesia Time (WIB).
- 2) The minimum nominal value of each request submitted shall be Rp1,000,000,000.00 (one billion rupiah) and more with multiples of Rp100,000,000.00 (one hundred million rupiah).
- 3) The request shall be submitted through the Reuters Monitoring Dealing System (RMDS) or by telephone with confirmation by facsimile to the Monetary Operation Bureau-Monetary Management Directorate.

c. Settlement of Early Redemption

Bank Indonesia shall conduct the settlement on the date of the submission of early redemption request (same day settlement) immediately after the pre cut-off of the BI- RTGS System.

d. Calculation of early redemption value

$$\begin{aligned} \text{Early Redemption} &= \frac{\text{Term Deposit Nominal Value subject to early redemption} \times 360 \text{ days}}{\text{Cash Value} \left(360 \text{ days} + \left(\frac{\text{Term Deposit Account}}{\text{RRT at the time of issuance}} \times \text{Remaining Tenure} \right) \right)} \\ \text{Cost} &= \frac{\text{Term Deposit Nominal Value subject to early redemption}}{\text{subject to early redemption}} \times \left(\frac{\text{Repo rate Lending Facility}}{\text{Lending Facility}} - \text{BI Rate} \right) \times \frac{\text{Remaining Tenure}}{360} \\ \text{Early Redemption Settlement Value} &= \frac{\text{Early Redemption}}{\text{Cash Value}} - \text{Cost} \end{aligned}$$

Notes:

RRT = Weighted Average

7. The provisions of point VII.2 shall be amended so as to read as follows:

2. Sanctions on the Violation of the Mandatory Minimum Six Month Holding Period of SBI

In the event that a Bank and/or Sub-Registry fails to comply with the provision on the obligation as referred to in point II. 9, it shall be subject to the following sanctions:

- a. A written reprimand with copies to:
- 1) Monetary Management Directorate;
 - 2) The relevant Bank Supervision Directorate, in the event of sanctions imposed on Sub-Registry Banks having their head office within the operational area of Bank Indonesia Head Office (KPBI);
 - 3) The Supervisory Team for Bank Indonesia Regional Office (KBI), in the event of sanctions imposed on Sub-Registry Banks having their head office within the operational area of a BI representative office (KBI); and/or
 - 4) The Capital Market and Financial Institutions Supervisory Board in the event of sanctions imposed on the Sub-Registry.
- b. a financial penalty in the amount of 0.01% (one per ten thousandth) of the nominal value of the SBI transaction which does not comply with the intended provision, in a minimum amount of Rp10,000,000.00 (ten million rupiah) and a maximum amount of Rp100,000,000.00 (one hundred million rupiah) per day.

- c. The written reprimand as referred to in letter (a) shall be delivered within 1 (one) business day after the lapse of the time limit for the submission of response as referred to in point II.9.c.3).
- d. The financial penalty as referred to in letter (b) shall be imposed by debiting the Demand Deposit Account and/or the Demand Deposit Account of the paying Bank appointed by the Sub-Registry.

The provisions in this Bank Indonesia Circular Letter shall come into effect on May 13, 2011.

For public cognizance, it is ordered that this Bank Indonesia Circular Letter be promulgated in the Official Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

[Signed]

HENDAR

DIRECTOR OF MONETARY MANAGEMENT